Research

Economy Watch

7 May 2025

Labour Market Loose

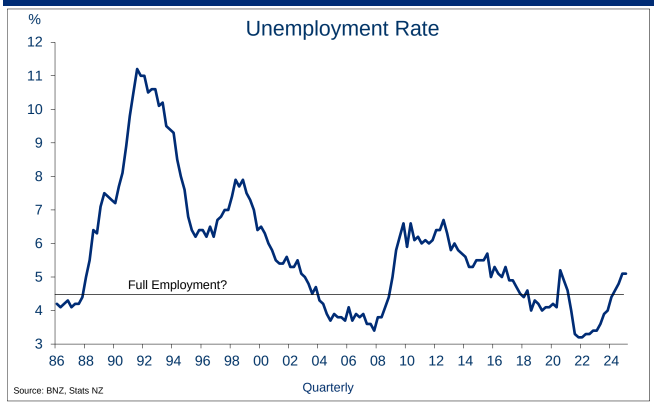
- **Unemployment steady at 5.1%**
- **A touch lower than expected**
- **As labour force participation dips**
- **Employment subdued; hours worked reduce again**
- **Loose labour market sees wage inflation ease**
- **RBNZ can continue easing**

Today's Q1 labour market statistics were always going to feel like old news from a market's perspective, given the big changes to the global trade and growth outlook through April. But they do set the starting point for the labour market. It is loose and wage inflation is easing.

Across the three major surveys released this morning, there was a bit in them for both hawks and doves regards the implications for monetary policy.

The hawks can point to a steady unemployment rate, at 5.1%, which was a tick lower than the RBNZ expected and two ticks below market (and our) expectations. However, this undershoot was partly a result of less participation in the labour market reflected in the participation rate dipping to 70.8% from 70.9% (revised down from 71.0%) in Q4.

Unemployment steadies at 5.1%



We do not see a lower-than-expected unemployment rate as a strong signal that the labour market is materially tighter than previously thought. Indeed, there is even a hint of a further loosening in the labour market here, but it has been reflected in a lower participation rate (as we thought was a risk) rather than the unemployment rate as we had pencilled in.

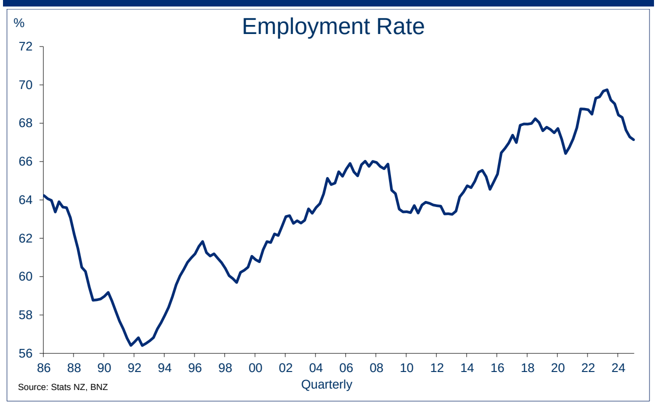
How the participation rate tracks ahead will be important for estimates of the unemployment rate. Lower participation than we currently have forecast would mean the unemployment rate would not lift has much as we currently have forecast, everything else constant. We will look at the details in today's figures to assess the prospect for that balance ahead.

However, even if the unemployment rate does not lift as much as previously expected the degree of slack in the labour market and disinflationary pressure may be little different to our priors.

Consistent with the thinking of a marginal loosening in the labour market from today's figures is the employment rate easing a tick to 67.2% in Q1 and the underutilisation rate rising to 12.3% from 12.1%. The latter is associated with 12,000 fewer people employed full time, while there were 13,000 more people employed part time in Q1 compared to Q4 on a seasonally adjusted basis.

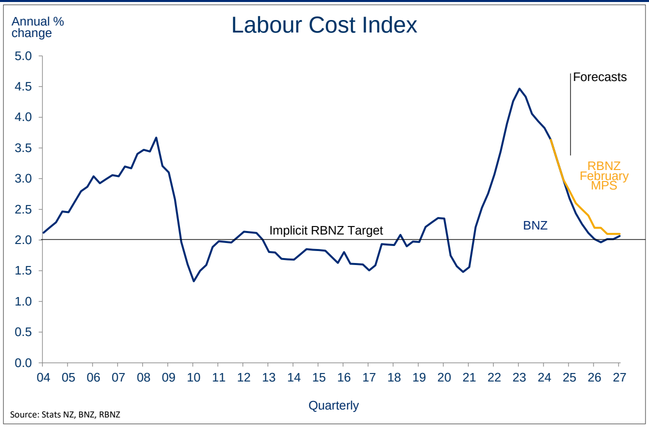
Total employment rose 0.1% q/q, in line with market and RBNZ expectations. However, downward revisions saw annual employment growth of -0.7% which was two ticks below expectations. Taken together, there is no clear directional surprise here.

A bit more slack here



Beyond the details of employment and unemployment, doves can point to softer than expected wage inflation. Private sector LCI wage inflation rose 0.4% q/q, against market (and our) expectations of 0.5%. This sees annual wage inflation ease to 2.6% from 3.0% in Q4. The latter was a tick lower than we had pencilled in and two ticks lower than the RBNZ expected.

Wage inflation easing



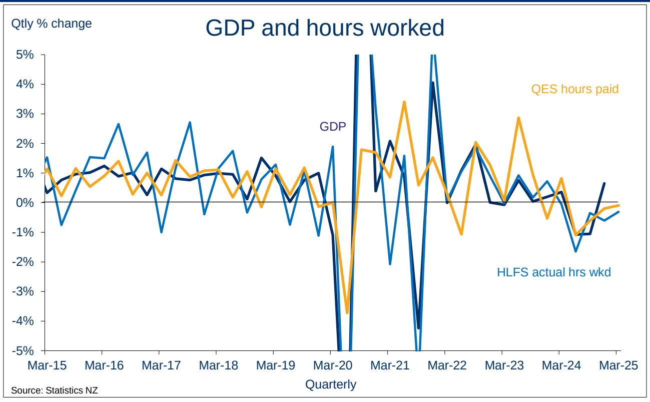
Even if one is inclined to take the headline unemployment rate as a pointer to the labour market not loosening any further, the wage outcome suggests it is associated with more disinflationary pulse than was anticipated. This was reinforced by the Quarterly Employment Survey (QES), with annual inflation in average hourly earnings easing by more than the Bank projected.

We think the balance of today's indicators are unlikely to massively alter the RBNZ thinking one way or another on the policy outlook. There is material uncertainty ahead as the Bank outlined again this morning in its Financial Stability Report. We see nothing to stand in the way of the RBNZ continuing to cut the OCR.

The market seems to have reached a similar conclusion to our own with minimal response across currency or fixed income from today's data.

We didn't see anything in today's figures to alter our thinking of subdued Q1 GDP. Our forecast for that quarter remains at 0.3%. If anything, there is a hint of downside risk. QES paid hours eased 0.1% and HLFS hours worked fell 0.3%, the latter has now fallen for five consecutive quarters. That does not convey any sense of strength, even though the unemployment rate came in a touch under expectations on the day.

Subdued



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